

**The Reliability of the Information on the  
Exempt Organizations Business Master File  
Needs to Be Improved**

**December 2000**

**Reference Number: 2001-10-023**

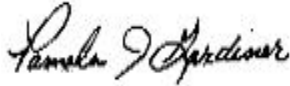
**This report has cleared the Treasury Inspector General for Tax Administration (TIGTA) disclosure review process and information determined to be restricted from public release has been redacted from this document.**

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

December 19, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI



FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Reliability of the Information on  
the Exempt Organizations Business Master File Needs to  
Be Improved

This report presents the results of our review of the reliability of the information on the Exempt Organizations Business Master File. In summary, we concluded the Tax Exempt and Government Entities (TE/GE) Division has made progress in providing access to the Exempt Organizations Business Master File information for its customers, but needs to improve the reliability of the information by ensuring that it is accurate and meets customers' needs.

Our recommendations will improve the reliability of the information on the Exempt Organizations Business Master File by ensuring that the TE/GE Division is providing its customers with information that is accurate and useful. TE/GE Division management agreed with our recommendations presented in the report. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

**Table of Contents**

Executive Summary.....	Page i
Objective and Scope.....	Page 1
Background .....	Page 2
Results .....	Page 3
The Tax Exempt and Government Entities Division Needs to Improve the Accuracy of the Information on the Exempt Organizations Business Master File .....	Page 4
The Tax Exempt and Government Entities Division Needs to Determine Whether the Exempt Organizations Business Master File Is Meeting All Customer Needs .....	Page 10
Conclusion.....	Page 12
Appendix I – Detailed Objective, Scope, and Methodology .....	Page 13
Appendix II – Major Contributors to This Report.....	Page 15
Appendix III – Report Distribution List.....	Page 16
Appendix IV – Management's Response to the Draft Report.....	Page 17

# **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

## **Executive Summary**

The Tax Exempt and Government Entities (TE/GE) Division is committed to providing its customers with the highest quality service possible in a timely and efficient manner. In meeting this commitment, the TE/GE Division established an Internet site that provides its customers with information about exempt organizations. The implementation of the TE/GE Division Internet site should improve the service provided to customers by assisting them in understanding and complying with applicable tax laws. Over the past 5 years, the IRS has added approximately 371,000 new organizations to the Exempt Organizations Business Master File (EOBMF).<sup>1</sup> Currently, approximately 2.1 million organizations are included on the EOBMF. Our objective was to determine whether information on the EOBMF met its customers' needs and provided its customers with reliable information on tax exempt organizations.

## **Results**

The TE/GE Division has made progress in providing access to information maintained on the EOBMF; however, improving the reliability of the EOBMF information would allow the IRS to better serve its customers. For example, the TE/GE Division developed an Internet site that provides customers with an array of information, including information from the EOBMF. While access has improved, the reliability of information on the EOBMF has been an ongoing concern for the TE/GE Division for several years. The TE/GE Division expended several hundred staff days in an effort to clean up a fraction of the EOBMF and then suspended the effort when it concluded that continuation would not be cost effective.

The TE/GE Division's strategic plan for Fiscal Year 2001 includes an Improvement Project Plan to clean up the EOBMF. The TE/GE Division has scheduled the development by March 2001 of a contract Statement of Work to study the EOBMF and develop a strategy to improve the accuracy of the file. In this regard, the TE/GE Division should direct the contractor to focus on implementing a process for updating and maintaining the EOBMF to ensure that the information provided to its customers is accurate and meeting their expectations.

---

<sup>1</sup> The EOBMF is the IRS' basic record source for exempt organizations. It includes those organizations that have had an application processed for tax exempt status.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

### **The Tax Exempt and Government Entities Division Needs to Improve the Accuracy of the Information on the Exempt Organizations Business Master File**

The TE/GE Division needs to improve the process for updating and maintaining the EOBMF to ensure that it contains accurate information. The TE/GE Division and other organizations have conducted reviews of the EOBMF and determined that up to 51 percent of the information may not be accurate. Current practices are not sufficient to maintain reliable information on exempt organizations. We concluded that more frequent contacts with small organizations would improve the accuracy of the EOBMF information. The lack of reliable data on the EOBMF can result in the receipt of inaccurate information about tax exempt organizations by both internal and external customers.

### **The Tax Exempt and Government Entities Division Needs to Determine Whether the Exempt Organizations Business Master File Is Meeting All Customer Needs**

Knowing your customers and meeting their needs makes good business sense. One way the TE/GE Division provides customers with EOBMF information is through its Internet site, but the TE/GE Division has little information on the customers accessing the site. Without knowing its customers, the TE/GE Division cannot determine whether information originating from the EOBMF is meeting their expectations. Currently, the Internet provider captures information only on the number of files downloaded and does not capture sufficient information to measure customer satisfaction with the information obtained from the Internet site.

## **Summary of Recommendations**

The IRS needs to ensure that the TE/GE Division is providing its customers with information that is accurate and useful. The Commissioner, TE/GE Division, needs a process to verify the filing status and existence of the active exempt organizations and a process to maintain accurate records in subsequent years by establishing more frequent contacts with organizations regarding the status of their activities. The organizations could periodically submit a postcard-type document to the IRS or electronically submit information on their filing status. The Commissioner, TE/GE Division should also implement a process to determine whether the EOBMF is meeting the expectations of its customers.

Management's Response: TE/GE Division management will ensure that the statement of work (SOW) includes a process to verify the filing status, existence and other information pertinent to active organizations. TE/GE Division management will also ensure that the

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

SOW includes a process to maintain accurate records in subsequent years and develop a methodology to determine whether the information on the EOBMF meets the needs of TE/GE's customers.

Management's complete response to the draft report is included as Appendix IV.

## The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved

---

### Objective and Scope

*We assessed whether the information on the EOBMF met its customers needs and whether the EOBMF provided its customers with reliable information on tax exempt organizations.*

The overall objective of our review was to determine if information on the Exempt Organizations Business Master File (EOBMF) met its customers' needs and provided its customers with reliable information on tax exempt organizations. Customers include: the Congress; oversight groups; tax exempt organizations; the Examination, Submission Processing, and Customer Service functions; and individuals who are potential donors to charities.

Specifically, we:

- Identified the internal and external customers of the EOBMF.
- Determined whether the information available on the Tax Exempt and Government Entities (TE/GE) Division Internet site served its customers' needs.
- Assessed the reliability of EOBMF information and determined whether the TE/GE Division took actions to improve the accuracy of information on the EOBMF.
- Evaluated the process used by the TE/GE Division to ensure compliance with filing requirements for tax exempt organizations.

We conducted our audit in the National Headquarters TE/GE Division between May and July 2000. This audit was performed in accordance with *Government Auditing Standards*.

The scope of our work consisted of conducting interviews, reviewing a sample of Computer Paragraph (CP) notices,<sup>1</sup> and reviewing the procedures and processes used by the TE/GE Division to provide tax exempt information to its customers.

---

<sup>1</sup> CP notices are computer-generated notices mailed to organizations in connection with their Business Master File tax accounts.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

### **Background**

*The EOBMF is the basic record source of the IRS for exempt organizations.*

The EOBMF is the IRS' basic record source for exempt organizations. In general, the EOBMF includes those organizations that have had an application processed for tax exempt status. These include the following organizations:

- Independent organizations covered by individual rulings or determination letters, except individual churches and synagogues affiliated with well-known religious denominations.
- Organizations covered by group exemption letters and required to file exempt organization returns.

The number of exempt organizations on the EOBMF has increased by approximately 371,000, from 1,693,047 in 1995, to 2,064,238 as of February 29, 2000. Of these, 1,329,696 entities were in active status, and 734,542 entities were listed as inactive.

*In 1993, the Subcommittee on Oversight believed that the IRS needed to strengthen its compliance program to identify organizations that do not file annual returns.*

In 1993, the Subcommittee on Oversight, within the United States House of Representatives' Committee on Ways and Means, conducted an investigation of the EOBMF. The Subcommittee determined that the IRS examination level for tax exempt organizations was below 1 percent. The Subcommittee also believed that the IRS needed to strengthen its compliance program to identify organizations that do not file an annual Return of Organization Exempt From Income Tax (Form 990) and identify those organizations that are on the EOBMF but are no longer operating.

As a result of this Congressional investigation, the former Office of the Chief Inspector (now the Treasury Inspector General for Tax Administration [TIGTA]) conducted a review of the EOBMF and issued an audit report entitled, *Review of Exempt Organization Returns*



## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

(Reference Number 071803, dated March 3, 1997). On December 13, 1999, the Acting Assistant Commissioner (Employee Plans/Exempt Organizations [EP/EO])<sup>2</sup> requested the TIGTA's agreement to cancel two corrective actions relating to the subject report. We evaluated the related issues and met with TE/GE Division managers and executives to obtain their insight and perspective on the decision to request the cancellation. The TIGTA concurred with the request because the audit staff determined that the corrective actions would no longer correct the reported conditions.

### **Results**

*The TE/GE Division is not providing its customers with the most accurate information available.*

The TE/GE Division has made progress in providing access to EOBFM information to its customers, but improving the accuracy of the information would allow the IRS to better serve its customers, such as the Congress, oversight groups, tax exempt organizations, and individuals who are potential donors to charities.

The TE/GE Division is committed to providing its customers with the highest quality service possible in a timely and efficient manner. For example, the TE/GE Division developed an Internet site that provides an array of information, such as publications, tax forms, where to file applications, and a listing of approved organizations. During 1999, customers downloaded 23,822 files from the Internet site, which resulted in fewer written requests for information.

While the TE/GE Division has provided better access to its data, the IRS has no effective mechanism to systematically update and maintain EOBFM records that would provide customers with accurate information. The lack of accurate information on the EOBFM can result in customers and oversight bodies receiving unreliable data about tax exempt entities.

---

<sup>2</sup> On December 5, 1999, the former EP/EO function moved to the TE/GE Division.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

### **The Tax Exempt and Government Entities Division Needs to Improve the Accuracy of the Information on the Exempt Organizations Business Master File**

---

*Reviews have determined that up to 51 percent of the EOBMF information may not be accurate.*

Overall, the reliability of the data in the EOBMF needs to be improved. The TE/GE Division and other organizations have conducted reviews of the EOBMF and determined that up to 51 percent of the information may not be accurate.

The reliability of the EOBMF has been an ongoing concern for the TE/GE Division for several years. Accordingly, the TE/GE Division has attempted to improve the accuracy of the EOBMF but has been unable to apply the necessary human resources and funding to correct the problems. For example, the TE/GE Division reviewed a statistically valid sample of two segments of the EOBMF (foundation code 09<sup>3</sup> and expired advanced rulings<sup>4</sup>). These segments represented about 20,000 of the approximately 2.1 million entities on the EOBMF. The TE/GE Division expended approximately 227 staff days reviewing 566 sampled entities and estimated that it would take another 34 staff years just to complete the review of the remaining 20,000 entities. If this approach was used for the estimated 700,000 errors, it would equate to 2.2 million hours, or 1,077 staff years, to correct the EOBMF.

As a result, the TE/GE Division concluded it would not be cost effective to complete the analysis of the remaining entities because it would address only a very small fraction of the EOBMF population and would do nothing to prevent the recurrence of the problem.

The IRS also conducted a study of Exempt Organization Nonfilers in 1994. The study sampled 300 randomly selected organizations coded as not required to file on

---

<sup>3</sup> A foundation code is used to identify the type of organization that is tax exempt.

<sup>4</sup> Advanced rulings are previously ruled on issues that have passed their expiration date.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

the EOBMF and found that 51 percent of the records contained errors. Additionally, the study concluded:

- Twenty-one percent of all organizations examined either had been terminated (14 percent) or could not be located (7 percent).
- Twenty-seven percent of the organizations located had an incorrect address on the EOBMF.
- Thirty-three percent of the organizations that were located had an error other than filing status on the EOBMF (e.g., employer identification number, address, name, etc.).

The study also indicated that the Congressional Subcommittee on Oversight, within the United States House of Representatives' Committee on Ways and Means, was concerned about the accuracy of the data on the EOBMF. Specifically, the Subcommittee was concerned with the IRS' procedures for capturing information on small organizations whose annual gross receipts are under \$25,000, the Form 990 threshold.

The study proposed recommendations that would determine whether organizations that are not required to annually file a Form 990 still exist. Completion of the recommendations would ultimately improve the accuracy of the EOBMF information. However, the IRS never completed the actions outlined in the recommendations because it did not receive the necessary funding and resources.

To effectively improve the accuracy of the EOBMF, the TE/GE Division needs more contacts with the smaller organizations. Existing procedures require notices to be sent to active exempt organizations every 3 years. CP 140 Notices are sent to active organizations that are not required to file because their gross receipts are below \$25,000 and a return has not posted for 3 years. CP 144 Notices are sent to those active organizations that have a filing requirement but have not filed a Form 990 for 3 consecutive years. These notices serve as a reminder to exempt organizations about filing

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

requirements and assist the TE/GE Division in tracking approximately one-half of the tax exempt population.

If the notices are returned and the IRS is unable to locate the organization or if the reply definitely indicates that the organization is defunct, the status of the organization is changed from active to inactive. This action will keep tax packages and subsequent notices from being mailed to these inactive exempt organizations. It can also cause some information about charitable status in the Cumulative List of Organizations (Publication 78),<sup>5</sup> which is updated annually, to be inaccurate since the information is not current. This could ultimately result in the loss of contributions to valid exempt organizations. If an organization files a return, the status will change from inactive to active. However, if there is no response to the notice after 90 days, the IRS will research the account for a better address. If a better address for the organization cannot be located, the status of the organization will be changed from active to inactive.

The TE/GE Division does not track or generate management information system reports for the CP notices mailed, processed, or undelivered. However, TE/GE Division management provided a computer extract of the CP notices mailed from June 1999 through May 2000. During this 12-month period, the IRS mailed 72,507 CP notices to active organizations to verify the organizations' status and filing requirements.

We reviewed a systematic random sample of 81 accounts that were mailed a notice to determine whether customers submitted updated account information by replying to the notices. We concluded that 29 of the 81 (36 percent) exempt organizations were still active because the EOBF account for the organizations reflected some activity after the CP notices were mailed. Eight of the 81 exempt organizations were no longer active organizations

---

<sup>5</sup> Publication 78 contains the names of organizations entitled to deductible contributions by donors.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

because their responses indicated they were no longer exempt. The remaining 44 organizations did not respond to the notices and the accounts were shown as being active, even though the EOBF accounts showed no activity. In addition, 32 of the 44 EOBF accounts showed that over 180 days had elapsed since the notices were mailed to the organizations.

The existing TE/GE instructions required employees at the Ogden Service Center (OSC) to send certain responses to one of the six Area Sites<sup>6</sup> for processing. Responses that indicate an organization was terminated, delinquent but required to file, or not required to file are forwarded to one of the six Area Sites. However, notices returned as undeliverable, or organizations that do not respond, are not referred to an Area Site for follow-up. Moreover, the TE/GE Division does not keep management information on the results from processing the CP notices, and the OSC destroys the notices shortly after responses are processed.

*The TE/GE Division is not prohibited from removing entities from the EOBF.*

We reviewed notes from a January 1996 meeting conducted by the former Office of the Chief Inspector (now TIGTA) with a former EO executive. In the notes, the former executive indicated that the IRS is not prohibited from removing an organization from the EOBF, but the IRS must first attempt personal contact with the taxpayer. The former EO executive indicated that if a notice is returned as undeliverable, and telephone contact is unsuccessful, an agent must go out to “knock on doors” to try to locate the responsible party for the exempt organization.

*The EOBF still contains entities that are no longer in business.*

Requiring the IRS to make personal contact with a responsible party prior to removing the organization from the EOBF is very expensive and, historically, the TE/GE Division has not applied the resources to undertake a project of this magnitude. Consequently, the EOBF contains information about entities that are no longer in business.

---

<sup>6</sup> On April 24, 2000, Key District Offices were converted into six Area Sites.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

Therefore, IRS management cannot make meaningful use of the information on the EOBMF. Our sample results indicated that only 36 percent of the exempt organizations mailed a CP notice from June 1999 through May 2000 had established they were still active. In addition, the problems with the EOBMF will continue to worsen because the IRS has added approximately 371,000 new organizations to the EOBMF over the past 5 years. This represents a 22 percent increase from 1995 levels.

The TE/GE Division's strategic plan for Fiscal Year (FY) 2001 includes an Improvement Project Plan (IPP) to clean up the EOBMF. In August 2000, the IRS Commissioner approved the IPP and allocated \$654,000 for a contractor to conduct a study of the EOBMF and develop a strategy to improve the accuracy of the file.

The TE/GE Division has scheduled the development of a contract Statement of Work (SOW) by March 2001. We believe it is important that the SOW includes a process to verify the filing status, existence, and other relevant information with the active organizations. Then the contractor could design a notice to verify the filing status and other pertinent information with the organizations.

The SOW should also include a process to ensure that the accuracy of the EOBMF is maintained in subsequent years by requiring all organizations to contact the IRS more frequently regarding the status of their activities. This would improve the accuracy of the file and would enable the TE/GE Division to better maintain the EOBMF. The transition to more frequent contacts could be accomplished primarily through CP notices and by educating customers at the time the application for tax exempt status is submitted to the TE/GE Division. The TE/GE Division will need to update instructions for completing applications for tax exempt status and will need to advise customers of the new filing requirement in the letter approving the application.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

*TE/GE Division managers indicated that they had to increase the sample sizes of their compliance initiatives due to the inaccuracy of the EOBF.*

Additionally, the TE/GE Division uses the EOBF information for various projects, including compliance initiatives. This is accomplished by downloading EOBF information into the Exempt Organizations Returns Inventory and Classification System (EORICS), which is used by the TE/GE Division to identify cases with the most examination potential. The EORICS provides users access to return and filer information related to the filing and processing of exempt organization returns.

TE/GE Division managers indicated that they had to adjust their compliance initiatives produced from the EORICS because of the inaccuracies of the EOBF. In addition, the lack of accurate information on the EOBF has increased the burden of its customers and caused the TE/GE Division to look elsewhere for reliable data.

### **Recommendations**

1. The Commissioner, TE/GE Division, needs to ensure that the contract SOW for studying the EOBF under the IPP includes a process to verify the filing status, existence, and other information pertinent to active exempt organizations. If the contractor determines that contact needs to be established with organizations listed as active on the EOBF, the SOW should also require the contractor to design a notice for capturing this information on the exempt organizations. The notice could advise the organizations that failure to respond would result in the movement of the account to an inactive status.
2. The Commissioner, TE/GE Division, needs to ensure that the contract SOW includes a process to maintain accurate records in subsequent years. Requiring organizations to contact the IRS more frequently would help ensure the accuracy of the file in the future. This could involve requiring the organizations to periodically submit a postcard-type document to the IRS or electronically submit information on their filing status. The SOW should

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

also require recommendations for educating customers on the new requirements if the contractor determines that more frequent contacts are needed.

Management's Response: TE/GE will develop a contract SOW to implement its improvement project plan to clean up the EOBF. The SOW will incorporate a process to verify the filing status, existence, and other information pertinent to active organizations. The SOW will also require the contractor to design a notice for capturing this information on the exempt organizations and advising the organizations that failure to respond would result in the movement of the account to an inactive status.

In addition, the SOW will include a process to maintain accurate records in subsequent years. This could involve requiring organizations to periodically submit a postcard-type document to the IRS or electronically submit information on their filing status. The SOW will also include a method for educating customers on any new requirements.

---

## **The Tax Exempt and Government Entities Division Needs to Determine Whether the Exempt Organizations Business Master File Is Meeting All Customer Needs**

---

The TE/GE Division uses an Internet site to provide the public with ready access to EOBF information. While the information is made available, the needs and expectations of customers accessing the information is not tracked. Instead, the Internet provider and the TE/GE Division track only the number of files downloaded from the site. Therefore, we were unable to determine whether the inaccurate information on the EOBF had adversely affected TE/GE customers.

While we were unable to identify specific customers accessing the TE/GE Division Internet site, we were able to identify some external customers who requested EOBF information through written correspondence.



## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

Since FY 1999, the IRS has received requests for EOBMF information from only six external customers who were requesting lists of organizations meeting specific criteria.

Some of the other customers who may use the EOBMF information are: the Congress; oversight groups; tax exempt organizations; the Examination, Submission Processing, and Customer Service functions; and individuals who are potential donors to charities. The TE/GE Division needs to determine whether the inaccuracy of the EOBMF affected its customers.

We also identified two external Internet sites that provide information on tax exempt organizations. Much of their information came from the EOBMF. One of the two sites includes a caveat regarding the reliability of the information received from the IRS. It indicates that the EOBMF probably contains some defunct organizations and, therefore, overstates the number of organizations.

While the TE/GE Division is required to make its information available for public inspection, we did not identify any guidelines restricting it from capturing data on the usefulness of information to external customers. The Internal Revenue Manual requires that all requests for Form 990, Short Form Return of Organization Exempt From Income Tax (Form 990-EZ), Return of Private Foundation (Form 990-PF), and supporting documents filed after December 31, 1969, be made available for public inspection upon written request.

Knowing your customers and meeting their expectations makes good business sense. In addition, the IRS' modernization effort emphasizes that quality service should be provided to all customers.

### **Recommendation**

3. The Commissioner, TE/GE Division, needs to ensure that the contractor's SOW includes developing a methodology to determine whether the

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

information on the EOBF is meeting the needs of its customers.

Management's Response: The TE/GE contract SOW will incorporate the development of a methodology to determine whether the information on the EOBF meets the needs of TE/GE's customers.

### **Conclusion**

The lack of reliable data on the EOBF results in the IRS providing inaccurate information to both internal and external customers. The TE/GE Division needs processes to perfect the information on the EOBF and to maintain its accuracy in the future. The TE/GE Division also needs to determine whether the EOBF is meeting the needs of its customers.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of our review was to determine whether information on the Exempt Organizations Business Master File (EOBMF) met customers' needs and provided the Congress; oversight groups; tax exempt organizations; the Examination, Submission Processing, and Customer Service functions; and individuals who are potential donors to charities with reliable information on tax exempt organizations. We conducted the following audit tests to accomplish the objective:

- I. To identify the internal and external customers of the EOBMF, we:
  - A. Interviewed Tax Exempt and Government Entities (TE/GE) Division analysts in the National Headquarters and determined whether they captured data that identified the customers requesting Exempt Organization information.
  - B. Obtained a copy of the testimony from the Congressional Subcommittee on Oversight, within the United States House of Representatives Committee on Ways and Means, which stated that the Internal Revenue Service (IRS) needed to strengthen its controls over the EOBMF.
  - C. Interviewed personnel in the IRS Disclosure Office and appropriate TE/GE Division offices and identified customers who requested information under the Freedom of Information Act.<sup>1</sup>
- II. To determine the legal requirements for maintaining the EOBMF, we:
  - A. Reviewed Internal Revenue Manuals (IRM) and other guidance documents and identified the legal requirements.
  - B. Reviewed procedures for maintaining and updating the inventory recorded on the EOBMF.
  - C. Interviewed TE/GE Division personnel and determined whether the TE/GE Division was aware of the legal requirements.
- III. To determine whether the information available on the TE/GE Internet is serving customers' needs, we:
  - A. Identified the information available on the TE/GE Internet site.
  - B. Contacted the Office of Legislative Affairs and discussed possible disclosure issues regarding the placement of the Return of Organization Exempt From

---

<sup>1</sup> Freedom of Information Act (FOIA) (1988), 5 U.S.C. § 552 (1996).

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

Income Tax (Form 990) and related exempt organization entity information on the TE/GE Internet site.

- C. Determined the accessibility of the information on the TE/GE Internet site.
  - D. Determined the actions taken by the systems analyst to ensure the accuracy of the information.
  - E. Determined whether the TE/GE Internet site captured information on the customers who retrieved information from the TE/GE Internet site.
  - F. Interviewed TE/GE analysts and determined the procedures and time frames used to provide internal and external customers with information residing on the EOBF.
- IV. To assess the reliability of EOBF information, we interviewed TE/GE Division personnel and determined the actions initiated since issuance of the prior audit report<sup>2</sup> that changed the reported condition or otherwise improved the accuracy of information on the EOBF.
- V. To evaluate the process used by the TE/GE Division to ensure compliance with filing requirements for tax exempt organizations, we:
- A. Reviewed the IRM and determined the procedures to verify the filing requirements of the tax exempt organizations.
  - B. Interviewed TE/GE Division personnel and determined the process used to verify the filing requirements with the tax exempt organizations.
  - C. Using a random number generator, selected a judgmental sample of 81 tax exempt organizations from the 72,507 organizations that were mailed a Computer Paragraph notice<sup>3</sup> from June 1999 through May 2000 regarding their filing requirements and determined whether the EOBF was accurately updated.

---

<sup>2</sup> *Review of Exempt Organization Returns* (Reference Number 071803, dated March 3, 1997).

<sup>3</sup> These notices are sent to taxpayers in connection with Business Master File returns.

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

**Appendix II**

**Major Contributors to This Report**

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Joseph Edwards, Director

James V. Westcott, Audit Manager

Edward Gorman, Senior Auditor

Carol Rowland, Auditor

James E. Wellman, Auditor

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

**Appendix III**

**Report Distribution List**

Deputy Commissioner N:DC  
Commissioner, Tax Exempt and Government Entities Division T  
Deputy Commissioner, Tax Exempt and Government Entities Division T  
Director, Customer Account Services T:CAS  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Chief Counsel CC  
Office of Management Controls N:CFO:F:M  
National Taxpayer Advocate TA

**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

**Appendix IV**

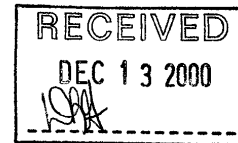
**Management's Response to the Draft Report**



COMMISSIONER  
TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

13 2000



**MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT**

**FROM:** Evelyn A. Petschek, Commissioner  
Tax Exempt and Government Entities Division

**SUBJECT:** Response to Draft Audit Report – The Reliability of the  
Information on the Exempt Organizations Business  
Master File Needs to Be Improved

Thank you for the opportunity to respond to your draft report, "The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved," which focuses on improving the reliability of information in the Exempt Organizations Business Master File (EOBMF). The report gives a fair and balanced assessment of our efforts to address this issue. We appreciate your observation that TE/GE has made progress in providing access to EOBMF information.

TE/GE has a long tradition of working closely with its diverse customers to provide the services and information they need, and this is a tradition we are committed to in the future. We are convinced that keeping the EOBMF up-to-date and accurate is a worthy goal. Our experience has taught us that doing so in a cost-effective way which does not impose burdensome reporting requirements upon our customers is a challenge. To help us create a workable solution to this problem, we will hire and work with a contractor this fiscal year. We are currently drawing up a statement of work for the contract (SOW).

You recommended that the SOW address several issues. The following provides our comments on the draft report's recommendations.

**IDENTITY OF RECOMMENDATIONS # 1 and # 2**

1. The Commissioner, TE/GE Division, needs to ensure that the contract statement of work (SOW) for studying the EOBMF under a Fiscal Year 2001 improvement project plan includes a process to verify the filing status, existence, and other information pertinent to active exempt organizations. If the contractor determines that contact needs to be established with organizations listed as active on the EOBMF, the SOW should also require the contractor to design a notice for capturing this information on the exempt organizations. The notice could advise the organizations that failure to respond would result in the movement of the account to an inactive status.

## **The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved**

---

2

2. The Commissioner, TE/GE Division, needs to ensure that the contract SOW includes a process to maintain accurate records in subsequent years. Requiring organizations to contact the IRS more frequently would help ensure the accuracy of the file in the future. This could involve requiring the organizations to periodically submit a postcard-type document to the IRS or electronically submit information on their filing status. The SOW should also require recommendations for educating customers on the new requirements if the contractor determines that more frequent contacts are needed.

### **ASSESSMENT OF CAUSE(S)**

The IRS does not have a way to systematically maintain and update accurate EOBF records.

### **CORRECTIVE ACTIONS**

TE/GE will develop a contract SOW to implement its improvement project plan to clean up the EOBF. The SOW will incorporate the elements identified in recommendations 1 and 2.

### **IMPLEMENTATION DATE**

March 31, 2001

### **RESPONSIBLE OFFICIAL(S)**

Project Manager for EOBF Contract, TE/GE Business Systems Planning

### **CORRECTIVE ACTION(S) MONITORING PLAN**

The Project Manager for EOBF Contract will give a copy of the SOW to the Director, Exempt Organizations.

### **IDENTITY OF RECOMMENDATION # 3**

The Commissioner, TE/GE Division, needs to ensure that the contractor's Statement of Work includes developing a methodology to determine whether the information on the EOBF is meeting the needs of TE/GE's customers.

### **ASSESSMENT OF CAUSES(S)**

TE/GE does not have a survey which identifies the needs and expectations of Exempt Organizations customers concerning EOBF information.

### **CORRECTIVE ACTIONS**

The contract SOW will also incorporate the development of a methodology to determine whether the information on the EOBF meets the needs of TE/GE's customers.

### **IMPLEMENTATION DATE**

March 31, 2001

### **RESPONSIBLE OFFICIAL(S)**

Project Manager for EOBF Contract, TE/GE Business Systems Planning



**The Reliability of the Information on the  
Exempt Organizations Business Master File Needs to Be Improved**

---

3

**CORRECTIVE ACTION MONITORING PLAN**

The Project Manager for EOBFM Contract will give a copy of the SOW to the Director, Exempt Organizations.

If you have any questions about this response, please call Mike Daly at (202) 622-6174.